

# **INDUSTRY PERSPECTIVE**

## **INTERNATIONAL PARTNERS DAY**

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**Frank Cevalco  
Hicks &  
Associates**

# **US Preeminence in the Global Arms Market**

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Belief, as expressed in a DoD report “World-Wide Arms Trade (1994-2000):”

- In markets where US producers compete, US sales will remain strong
- Many countries seek interoperability with the US
- US products are top of the line—Desert Storm illustrated battle proven superiority
- US performs R&D necessary to maintain superiority
- US prices are competitive
- US provides outstanding service after the sale, including training support
- US has built long-standing buyer-seller relationships

# **US Preeminence in the Global Arms Market (Contd.)**

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## **Reality:**

- Performance is less important today than during the Cold War
- Value added by FMS (e.g., economies of scale) are not well articulated
- Foreign competition is intensifying for every export sale
- Political, economic and industrial considerations may outweigh performance and price
- US can be very bureaucratic and may be perceived by other governments as non-responsive

# Making FMS More Competitive

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- Navy IPO Deputy Director LeBoeuf memo of September 24, 1997 states, in part: More and more, friendly countries are rejecting USG FMS offerings because their acquisition regulations require the use of competitive procedures as well as the inclusion of fixed or not-to-exceed prices
- Industry prefers sole source award methodology, but routinely accommodates competitive source selections managed by DoD and allied and friendly governments

Increasing numbers of countries rely on “free and open” competition in acquiring major defense equipment, as does the US DoD:

Often embodied in national laws, procurement regulations, budget process, and legislative approval process

Specified as preferred method of acquisition in bilateral MOUs with the US

Provides upward pressure on innovation and downward pressure on price

Typically identifies several alternative solutions to a military requirement

Creates a “level playing field” in source selection, at least in principle

# Making FMS More Competitive (Contd.)

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- Central to free and open competition is that all competitors are provided the same opportunity to review the requirement, prepare a proposal addressing technical approach, price, delivery, and management
- Industry is frustrated when DoD treats RFP-like solicitations from other governments as only “advisory,” ignoring specified content requirements, pricing requirements, and submission dates
- Industry understands the need for rules and regulations in defense acquisition:

But knows DoD routinely rejects proposals not fully “responsive” to DoD RFPs

Believes DoD should be amenable to “exceptions” that accommodate the laws, regulations, budget process, and legislative approval process of other governments

Senior officials are often flexible, but mid-level staff is often rule focused

Frustrated by what appears to be DoD’s sometimes arbitrary insistence on FMS rather than allowing the buyer to consider the DCS alternative

Capability and pricing of US defense equipment may be impressive in an absolute sense, but insufficient to capture a sale when confronted with foreign competitors who offer a more comprehensive package of political, economic, and industrial elements

# Improving customer participation

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- DEPSECDEF Hamre memo of March 23, 1999 states, in part:

FMS customers should be encouraged to participate in discussions between DoD and the potential contractor including Letters of Offer and Acceptance development, definition of technical specifications, delivery schedules, special warranty provisions, and other requirements

If an FMS customer asks to observe price negotiations, the contracting officer should accommodate this request as long as the offeror consents and the contracting officer obtains certain agreements from the FMS customer
- Industry understands the need for candor and disclosure with its foreign customers when negotiating DCS
- Most companies would support customer involvement in reviewing drafts of: LOAs, technical specifications, delivery schedules, special warranty provisions, and other requirements
- However, some companies may object strongly when asked to allow the customer to participate and observe, for fear that “company proprietary” cost data may be compromised

Informed customers are likely to be happy customers. Customers should be advised routinely of their right to participate and observe. Navy should consider making public on a quarterly basis the number of instances where such rights have been exercised by customers—no actual details need be released. Navy should also inform industry that participation and observation are being encouraged and provide industry with vignettes about the conduct of customers who have exercised the right of access

# Enhancing Partnership

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- DSCA Deputy Director Keltz memo of July 24, 2002 states, in part:
  - Export sales and transfers are complex transactions involving three primary stakeholders: US government, allied and friendly governments, and US defense commercial contractors
  - Each stakeholder operates under a unique set of constraints and objectives and it is the goal of DSCA to recognize and accommodate each of those legitimate constraints and objectives to the best of our ability
  - There is a recognized need to bring the relevant parties in an export sale together at the earliest possible time to better define program requirements and influence program execution.
  - The concept of “Team International” offers a powerful mechanism to achieve our stated goal of accommodating each stakeholder’s interests and objectives
- Industry understands that multiple US companies may be involved when a customer first announces its intention to acquire military equipment to address an operational requirement
- Industry also understands that the USG must remain neutral as long as multiple US solutions remain in play
- Industry encourages the USG to bring the customer together with US companies early in the process

Teams International should be mobilized more often to exploit available mechanisms for the transfer of defense-related goods and services, identify, timely solutions to problems, and improve communications and participation to meet the needs of foreign customers